The PFM Group

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MEMORANDUM

To: Brian Mayhew, Sue Woo
Bay Area Toll Authority

From: Alex Burnett, Sarah Hollenbeck, Erwin Tam
Public Financial Management, Inc.

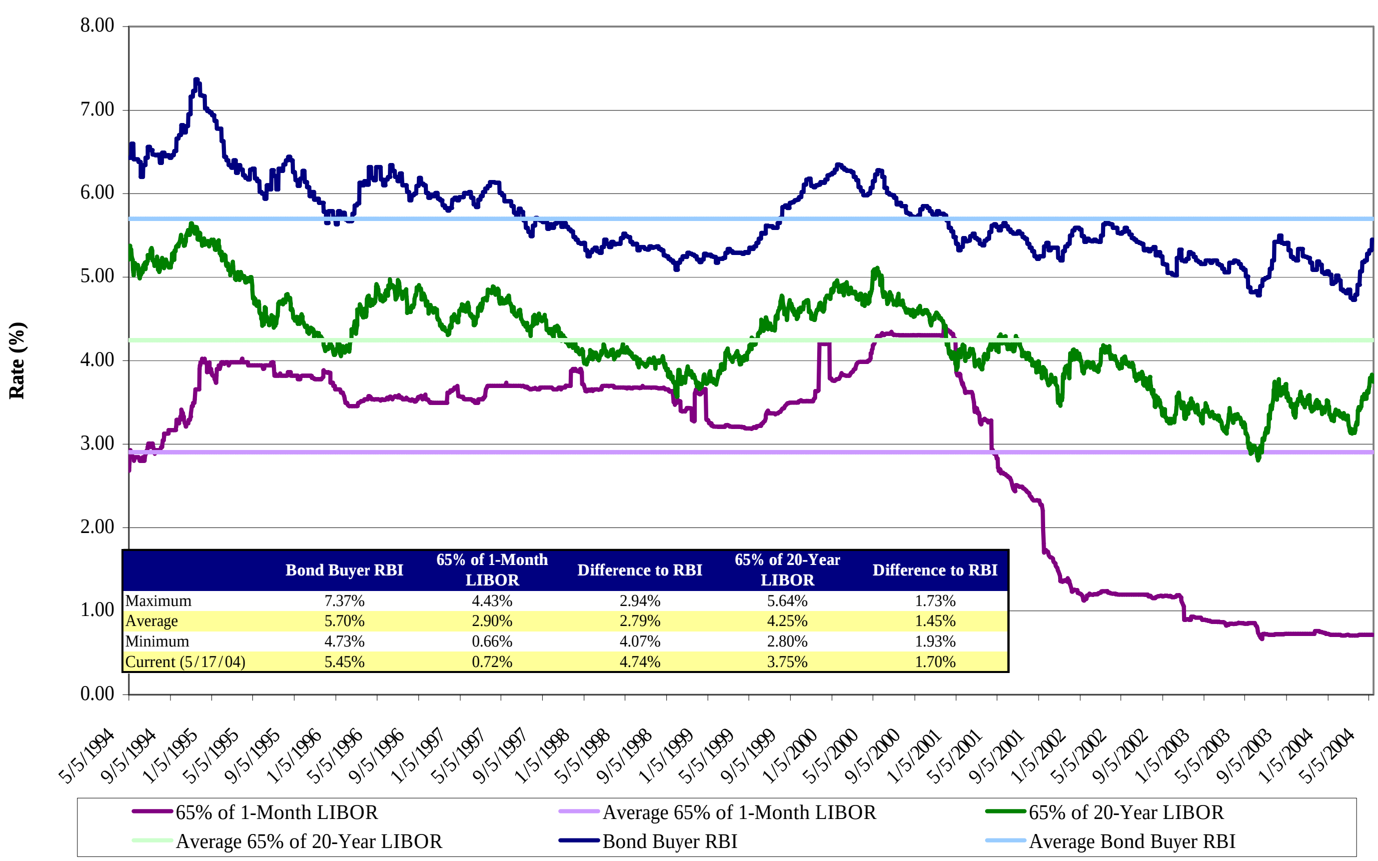
Re: Interest Rate Swap and Pricing

Public Financial Management has prepared this memorandum to further explore current market conditions as they relate to the possibility of implementing a forward starting swap in connection with the 2004 scheduled for this fall. Notwithstanding the extremely low level of current variable rates, we would recommend that BATA give strong consideration to a forward starting swap given the substantial relative advantage of interest rate swaps in today's market (79 bp vs traditional fixed rate bonds) current historic low level of interest rates (swap rate of 3.99%), and the assumed capital financing rate (5.50%) in the Regional Measure I and II plan of finance.

Current Market and the 2004 Bonds

We have examined the historical relationship between long-term tax-exempt bonds and synthetic fixed rates as evidenced by 20-Year LIBOR swap rates. The chart below shows the Revenue Bond Index (RBI), 65% of 20-Year LIBOR, and 65% of 1-Month LIBOR rates for the past 10 years.

65% of LIBOR versus Revenue Bond Index (1994-2004)



	Bond Buyer RBI	65% of 1-Month LIBOR	Difference to RBI	65% of 20-Year LIBOR	Difference to RBI
Maximum	7.37%	4.43%	2.94%	5.64%	1.73%
Average	5.70%	2.90%	2.79%	4.25%	1.45%
Minimum	4.73%	0.66%	4.07%	2.80%	1.93%
Current (5/17/04)	5.45%	0.72%	4.74%	3.75%	1.70%

Over the past 10 years, The Bond Buyer Revenue Bond Index (RBI) has averaged 5.70%. The average for a 65% of LIBOR swap with a weighted average life of 20 years was 4.25%. This corresponds to a spread of 1.45% between a fixed rate financing and an interest rate swap financing, excluding applicable variable rate fees. The current 20 year LIBOR swap rate is 3.75%. What this data indicates is that current swap rates are 50 bps below historical averages over the past 10 years, and that the spread between traditional fixed rate bonds (as evidenced by the Bond Buyer Revenue Bond Index) is 170 bps, or 25 bps wider spread than historic averages. Furthermore, if we highlight 65% of LIBOR as a proxy for short term variable rates, we would note the precipitous decline in interest rates since 2001. While variable rates have been lower than long-term swap rates, we would suggest that it is not unreasonable to expect a rise to historic interest rates in the 3.0% range over time.

We would also note that these spreads are based on indices and that the spreads between BATA's cost of funds for traditional fixed rate bonds and a LIBOR swap are likely more narrow given the strong reception that BATA's bonds would receive in the market. In order to access the relative financial benefits of an interest rate swap versus traditional fixed rate bonds specific to BATA, we have calculated the potential debt service comparison of a $300 million transaction. We have calculated the differential in debt service costs for swap rates of 3.99%, 4.25% and 4.50% and have compared the cost to a current fixed rate transaction (5.10%). We have also included the cost of liquidity and remarketing fees assumed to be 26bps in aggregate in the net debt service numbers. In making this comparison, it is important to note that we have not adjusted the assumed cost of the traditional fixed rate bonds, which would likely increase with a general increase in rates. The point of this analysis is to demonstrate the potential benefit even with a tightening of the relative spread between bonds and swaps. As the data indicates, all of the swap scenarios save BATA between $26 and $66 million on a gross basis, and $13 to $35 million on a present value basis. The results are summarized in the following table.

BATA Swap Pricing and Debt Service

	Fixed Rate	Swap Rate		
	5.10%	**3.99%**	**4.25%**	**4.50%**
Net Debt Service	649,322,974	583,204,193	603,543,546	623,192,576
Difference	n.a.	(66,118,781)	(45,779,428)	(26,130,398)
PV Net Debt Service	345,985,164	310,458,712	321,422,518	332,109,249
Difference	n.a.	(35,526,452)	(24,562,646)	(13,875,915)

We hope that you have found this analysis useful. Please call us if you have any questions.